WARDAIR CANADA LTD. Annual Report 1972

CONTENTS

Cover:
Boeing 747 brings luxury to Wardair Service

1972 IN BRIEF

	1972	1971	Change
Operating revenue	$19,581,242	$18,785,355	+ 4.2%
Operating expenses, before depreciation and amortization	17,828,295	16,632,384	+ 7.2%
Cash operating income	1,752,947	2,152,971	—18.6%
Depreciation and amortization	1,517,016	1,284,461	+18.1%
Net Earnings for year	271,996	563,191	—51.7%
Operating ratio	1.2%	4.6%	—73.9%
Return on investment	8.6%	11.7%	—26.5%
Earnings per share	8.4¢	17.4¢	—51.7%

Loading a Bristol 170 Freighter

Take-off from Red Rock Lake, N.W.T.

TO OUR SHAREHOLDERS AND EMPLOYEES

Your Company realized a consolidated net profit of $104,486 from its 1972 operations, equivalent to 3¢ per share of outstanding stock. In addition, the Company realized an extraordinary non-recurring gain of $167,510, equivalent to 5¢ per share. Combined 1972 earnings were $271,996, equal to 8¢ per share.

Preparation of meals at flight kitchen

International Operations

During 1972, corporate profits were again the victim of restricted charter airline operating authority on the North Atlantic routes. United Kingdom and European Governments' harassment of affinity charter flights created consumer doubt and uncertainty; thus we were unable to utilize our available capacity.

International traffic revenues increased from $17,519,949 in 1971 to $18,199,557 in 1972, a percentage increase of 4%. Operating costs increased from $6,620,870 in 1971 to $7,120,861 in 1972, a percentage increase of 7%.

Refuelling Boeing 707 for an International flight

Fortunately, we were able to offset a decrease in North Atlantic traffic by a 100% increase in Fall, Winter and Spring Inclusive Tours, or package holiday traffic, which kept us in the black.

The Governments of Canada, the United Kingdom and various European countries have replaced the affinity charter concept with a concept identified as "Advance Booking Charters", the objective being to replace a nebulous and unsatisfactory charter operating authority with a definitive operating authority which will slot charter airline operation into an accepted role in the scheme of international air transportation.

Pre-flight check by Flight Engineer

In our view, government charter rules must conform to what the travelling public will accept in the form of booking restrictions. As one might expect in presenting the public with a new charter booking procedure, the concept is having some teething problems; however, the Canadian Government has responded, and is responding to these developments in a quick and positive manner. It is too early in the season to predict how A B C's will be accepted by the public; and therefore difficult to predict how our 1973 North Atlantic operations will be affected.

1973 marks our 12th year in the international charter business and the first year we have programmed to transport more passengers on Inclusive Tour, or package holiday flights, than on the North Atlantic routes — and this despite the fact we have greatly increased our available aircraft seat capacity with the addition of a Boeing 747 aircraft.

After seven years' operation, the Boeing 727 will be withdrawn from service. It has been sold to a South American airline at a small profit to Wardair. The 727 will be delivered to its new owners in May of 1973, a few days after we place the Boeing 747 into service.

Addition of the Boeing 747 will increase our seat availability from 485 seats to 818 seats after withdrawal of the 119-seat Boeing 727. This provides a net available seat increase of 69%.

In keeping with the new regulations relating to Advance Booking Charters, we have created a wholly-owned subsidiary to market A B C's called, International Vacations Ltd., or "InterVac". InterVac will act as an independent marketing arm to both wholesale and retail Wardair aircraft capacity. As with outside wholesale contractors, InterVac will contract for the complete capacity of Wardair aircraft.

For United Kingdom-originating charters, another wholly-owned subsidiary, Canada-U.K. Travel Centre Ltd., has contracted for Wardair's capacity out of England and sells through travel agents and direct. With these two marketing outlets, we fully expect InterVac and Canada-U.K. Travel Centre to serve the public and the travel trade in an efficient manner. The two subsidiary companies are staffed with experienced people in the travel field and we would expect that these companies will grow and provide additional revenue for the Company. Initial results from the operation of these companies are gratifying and after startup costs are absorbed, we expect them to be profitable.

Wardair will, of course, continue to contract with various other travel wholesale firms who operate Inclusive Tours, or package holidays, such as Fairway Tours, Fiesta, Great Places, Suntours, Skylark, Elkin Tours, Travel-Fun Tours and Fun Seekers International.

Northern Operations

During 1972 our Northern Operation based at Yellowknife, N.W.T., continued to be a major contributor to the profitable operations of the Company. During February of 1973 we took delivery of two additional Series 300 Twin Otter aircraft, increasing the Twin Otter fleet to six aircraft and we still retain our one Bristol Freighter Mark 170 aircraft in service. This latter aircraft is becoming increasingly more expensive to operate due to its relative obsolescence; however, there is no other available type of aircraft which could replace the unique service this aircraft provides in Northern Canada.

The Company has submitted applications to increase its operating authority in the North through the addition of bases at Inuvik, Norman Wells and Resolute Bay, N.W.T. These applications are still pending before the Canadian Transport Commission.

Our outlook on northern development is very positive and we are endeavouring to find ways to increase our participation in this area. Since Wardair's beginning in the North some 21 years ago, this Company has been committed to a policy of providing the most modern and efficient aircraft and service in the Arctic and we intend to extend that service into areas heretofore not available to Wardair.

General

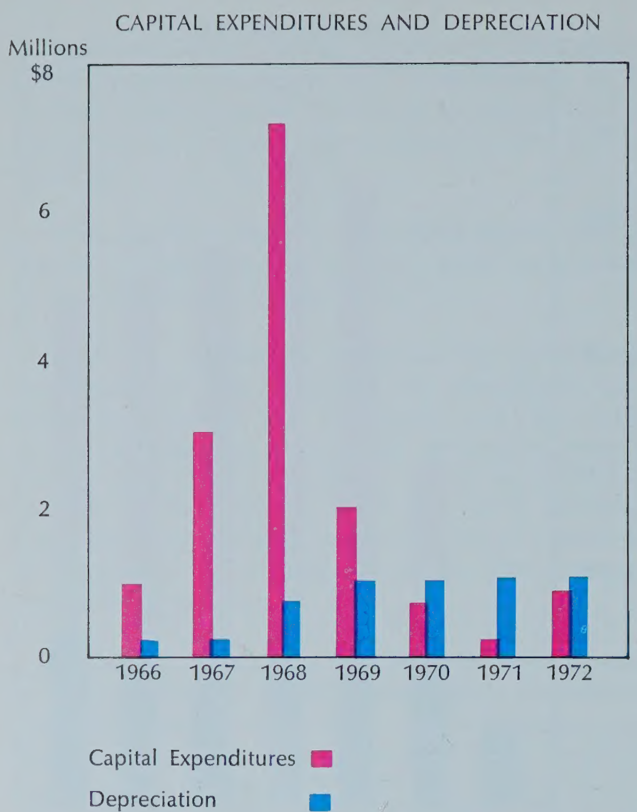
As indicated above, the Boeing 747 aircraft will commence revenue operations in May. Financing for the 747 was arranged through IMB Leasing and Financial Company Ltd. on a conditional sales contract basis. The aircraft, ground support equipment and spares package involve a commitment by the Company of approximately $27,000,000 to be repaid over a ten year period.

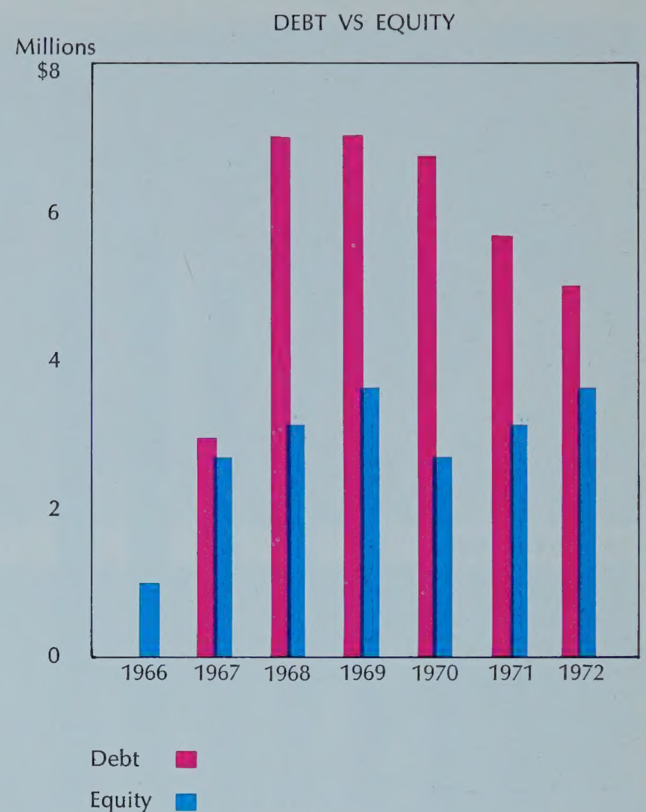
With the acquisition of additional aircraft for the Northern Operation and the 747 augmented by two 707-320C aircraft to serve the North Atlantic, Caribbean, Mexico, Hawaii and other holiday destinations, the Company's fleet modernization programme has come a long way. We will continue to evaluate flight equipment and systems in the light of regulations, consumer demand and product development to enable the Company to maintain its high standards of reliability and service.

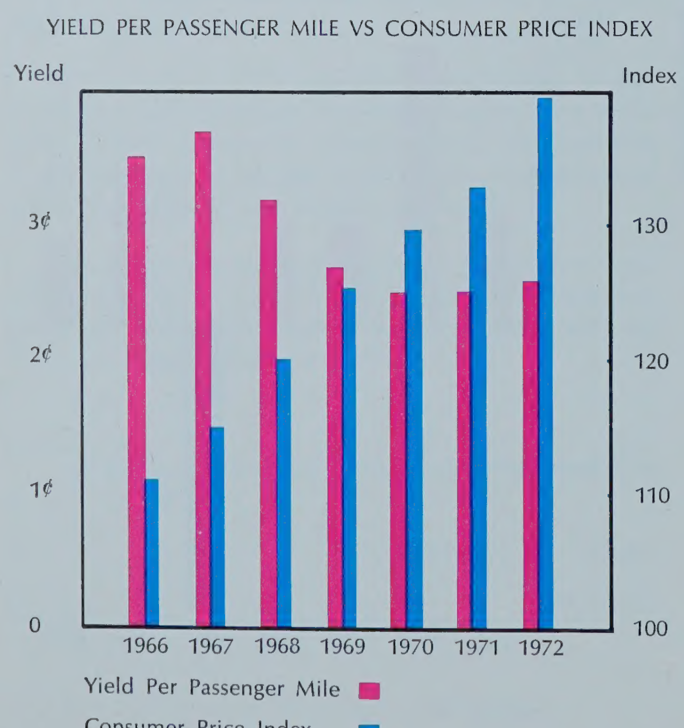
None of our goals are really attainable without the support of our employees in Wardair, InterVac and Canada-U.K. Travel Centre. That support was a key factor in maintaining our strong position in the market in 1972 despite the adversities of the marketplace. The management of the Company appreciates the conscientious and loyal support of all employees that was so amply demonstrated in 1972.

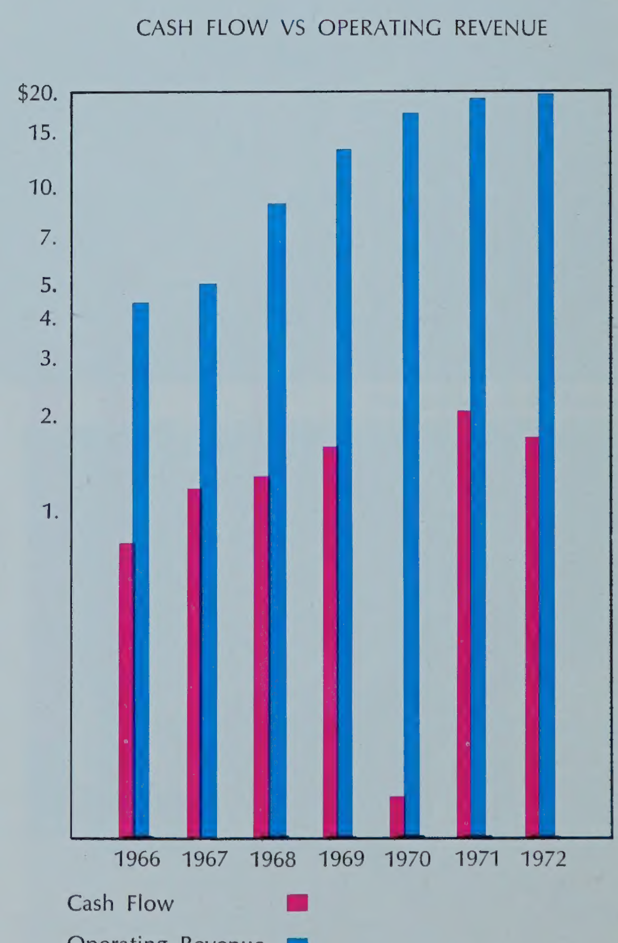
Outlook

For Wardair and its subsidiaries, 1973 will be a year of innovation and experimentation. The affect of the new A B C charter regulations on the operating results of the Company is difficult to project. The advance booking concept needs further regulatory changes to market charter seats effectively. InterVac is a promising subsidiary. It is profit oriented and its management intends to broaden the scope of its activities. Canada-U.K. Travel Centre is already engaged in acting as a centralized agency in the U.K. for ongoing travel arrangements, hotel reservations, car rentals and associated service activities to serve the holiday traveller.









Source: Statistics Canada

WARDAIR CANADA LTD.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1972

	1972	1971
OPERATING REVENUE	$19,581,242	$18,785,355
OPERATING EXPENSES		
Flying operations	12,211,777	11,581,890
Aircraft, traffic and passenger services	3,408,715	3,296,979
Sales and promotion	1,320,451	955,307
General and administration	887,352	798,208
Depreciation and amortization	1,517,016	1,284,461
	19,345,311	17,916,845
Income from operations	235,931	868,510
INTEREST ON LONG-TERM DEBT	469,773	529,609
	(233,842)	338,901
OTHER INCOME, net	338,328	224,290
Earnings before tax recovery	104,486	563,191
Income tax recovered (Note 8)	167,510	—
NET EARNINGS (Note 8)	271,996	563,191
Retained earnings at beginning of year	2,200,879	1,637,688
RETAINED EARNINGS AT END OF YEAR	$ 2,472,875	$ 2,200,879
EARNINGS PER SHARE (Note 6)		
Earnings before tax recovery	3¢	17¢
Net earnings	8¢	17¢

CONSOLIDATED BALANCE

ASSETS

	1972	1971
CURRENT ASSETS		
Cash	$ 73,996	$ 194,587
Accounts receivable — trade	202,350	193,055
— other (Note 2)	235,991	142,099
Inventories of materials and supplies at the lower of laid-in cost and net realizable value	1,024,955	891,570
Prepaid expenses and deposits	575,210	640,238
	2,112,502	2,061,549
FIXED ASSETS, at cost		
Flight equipment	14,078,494	13,526,418
Land, buildings and equipment	1,665,338	1,550,233
	15,743,832	15,076,651
Accumulated depreciation (Note 1)	5,634,139	4,528,186
	10,109,693	10,548,465
OTHER ASSETS (Note 3)		
Deferred charges	866,469	1,100,622
Investment	419,636	450,000
	1,286,105	1,550,622
	$13,508,300	$14,160,636

Signed on behalf of the Board

MAXWELL W. WARD
....
Director

T. L. SPALDING
....
Director

NADA LTD.

COMPANIES

T AS AT DECEMBER 31, 1972

LIABILITIES

	1972	1971
CURRENT LIABILITIES		
Bank indebtedness (Note 4)	$ 300,000	$ 750,000
Accounts payable and accrued liabilities	2,502,179	2,183,956
Charter prepayments	1,261,859	1,024,418
Current maturities on long-term debt	1,221,874	1,144,750
	5,285,912	5,103,124
PROVISION FOR AIRCRAFT OVERHAUL (Note 1)	797,331	956,929
LONG-TERM DEBT (Note 5)	3,937,906	4,886,428

SHAREHOLDERS' EQUITY

	1972	1971
CAPITAL STOCK (Note 6)		
Authorized 5,000,000 common shares of no par value		
Issued 3,237,566 shares (1971 - 3,237,400)	1,014,276	1,013,276
RETAINED EARNINGS (Note 7)	2,472,875	2,200,879
	3,487,151	3,214,155
	$13,508,300	$14,160,636

WARDAIR CANADA LTD.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED DECEMBER 31, 1972

	1972	**1971**
SOURCE OF FUNDS		
Net earnings	$ 271,996	$ 563,191
Non-cash items		
Depreciation	1,217,113	1,158,958
Amortization of deferred charges	299,904	125,503
Provision for overhaul	(137,434)	134,934
Funds provided from operations	1,651,579	1,982,586
Sale of fixed assets, net of gains and losses	38,778	127,440
Proceeds from long-term debt	539,868	—
Conversion of debenture to share capital	1,000	—
Repayment of investment	30,364	—
Deferred charges recovered	—	84,396
	2,261,589	2,194,422
APPLICATION OF FUNDS		
Investment	—	450,000
Fixed asset acquisitions	839,283	191,983
Reduction of long-term debt	1,488,390	1,241,186
Deferred charges incurred	65,751	—
	2,393,424	1,883,169
INCREASE (DECREASE) IN WORKING CAPITAL	(131,835)	311,253
Deficiency in working capital at beginning of year	3,041,575	3,352,828
DEFICIENCY IN WORKING CAPITAL AT END OF YEAR	$ 3,173,410	$ 3,041,575

WARDAIR CANADA LTD.

AND SUBSIDIARY COMPANIES

NOTES TO 1972 CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

a. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, International Vacations Ltd. and Canada-U.K. Travel Centre Limited.

b. DEPRECIATION

Flight equipment, representing approximately ninety percent of the total fixed assets, is amortized on a straight-line basis over twelve years to residual values not exceeding 15% of cost.

c. PROVISION FOR AIRCRAFT OVERHAUL

Provision for major engine overhauls is recorded at current estimated overhaul costs applied on hours of operation. Airframes are overhauled by a progressive maintenance programme incorporated into periodic shop visits and costs are expensed as incurred.

2. ACCOUNTS RECEIVABLE

Accounts Receivable — Other includes advances to company officers in the amount of $54,000.

3. OTHER ASSETS

Composition of deferred charges and amortization policy is:

	Amortization	1972	1971
Inclusive tour development	on basis of specific revenues earned, maximum of 3 years	$ 246,281	$ 464,006
Training expense	eight years to 1980	474,915	541,262
Debenture issue expense	the term of the debenture	61,864	68,264
Other	5 years to 1978	83,409	27,090
		$ 866,469	$1,100,622

The investment, secured by a combined fixed and subordinated debenture, represents advances made for the development of inclusive tour markets. Under the terms of the debenture, repayment will be $79,000 from future profits of the debtor and the remainder in instalments of varying amounts over nine years, including interest at 6½% per annum.

4. BANK INDEBTEDNESS

Bank indebtedness is secured by a fixed charge debenture and a floating charge debenture.

5. LONG-TERM DEBT

	1972	1971
9.55% Debenture, due February, 1975, with monthly instalments totalling $933,881 in 1973 and $910,000 in 1974, secured by first fixed and floating charges on all property and assets and other security	$1,843,881	$2,780,000
6.50% Convertible debenture — Series A September 15, 1982; with annual purchase fund payments of $200,000 in the years 1973 to 1975, $250,000 from 1976 to 1978, $300,000 from 1979 to 1981, and a final payment of $550,000 in 1982. These commitments may be satisfied by cash payment, purchase of debentures in the open market at par or less, by redemption or conversion to common shares	2,799,000	3,000,000
10.00% Debenture, due February, 1979, payable in equal monthly instalments, secured by a first fixed charge on specific aircraft and other security	475,594	—
Loan payable to a director	—	200,000
Mortgages	41,305	51,178
	5,159,780	6,031,178
Current maturities	1,221,874	1,144,750
	$3,937,906	$4,886,428

The terms of the 9.55% debenture provide restrictions on capital expenditures, the payment of dividends, salaries to officers, and retirement of sinking fund debentures prior to maturity.

The 6.50% convertible debenture — Series A trust indenture provides for; redemption at the option of the company, in whole or in part, subsequent to September 15, 1972 and before maturity, at varying prices reducing from 106.5% to 100.65%; restrictions on the payment of dividends, salaries and issuance of share options to officers; the conditions under which additional funded obligations may be issued.

Maturities on existing long-term debt for each of the four years subsequent to 1973 are as follows:

1974 — $1,192,000	1976 — $330,000
1975 — 280,000	1977 — 330,000

6. CAPITAL STOCK

The 6.50% debentures — Series A are convertible into common shares at the option of the holder on or before September 16, 1974, at the rate of $7 per share.

Of the authorized and unissued common shares, 899,857 shares have been reserved to provide the maximum number of shares that may be required for conversion of the outstanding 6.50% debentures, and for the share purchase option which the company may elect to grant to the lessor of the Boeing aircraft (Note 7). The issuance of these shares will have no dilutive effect on earnings per share.

7. COMMITMENTS AND SUBSEQUENT EVENTS

The company has under lease until 1976 a Boeing 727 jet aircraft at an annual rental of $737,000 (U.S.) with an option to purchase at the expiration of the lease for $990,695 (U.S.) The company has negotiated to purchase this aircraft from the lessor and is committed to sell it for delivery in May 1973.

The company also has under lease until 1979 a Boeing 707 jet aircraft at an annual rental of $1,358,000 (U.S.) with an option to purchase the aircraft at the expiration of the lease for $1,500,000 (U.S.).

Under the terms of the lease on the Boeing 707 aircraft, the company has granted an option to the lessor to acquire, during the thirty-day period after April 27, 1976, 100,000 shares of the company at $1 per share. Also under the terms of the lease on the Boeing 727 aircraft as amended, the company must pay the lessor $1,516,000 between November 27, 1975 and April 27, 1976 or grant an option to the lessor for a thirty-day period to purchase such number of shares at $1 per share which together with 100,000 optioned shares shall total 10% of the company's authorize[illegible]pital stock as constituted on the option expiry date.

Subject to the purchase by a major Canadian air carrier of one third of the company's outstanding share capital from the major shareholder, the lessor has agreed to release the company from the commitments referred to in the previous paragraph for a cash consideration of $500,000.

Among other things the lease agreements restrict payment of dividends, redemption of stock and similar distributions.

The company took delivery of two DHC-6 series Twin Otters in February 1973 and is committed to the acquisition of one Boeing 747 aircraft, together with ancillary and support equipment, for a to[illegible] consideration of approximately $29,000,000. The company is arranging long-term financing for these acquisitions.

The company and its subsidiaries are obligated under long-term lease agreements for aggregate basic annual rentals of approximately $2,073,000, $1,697,000, $1,548,000, $1,537,000 and $1,472,000 in each of the years ending December 31, 1973 to 1977 respectively.

8. INCOME TAXES

The company claims capital cost allowances and other deductions allowed for income tax purposes in excess of the related amounts reflected in the accounts, and provides in its accounts only for the taxes payable on its taxable income for the year.

This accounting treatment differs from the tax allocation basis under which the income tax provision is based on earnings reported in the accounts. If the tax allocation basis had been followed in current and prior years, earnings for the year would have been reduced by $20,000 ($242,000 in 1971) and reported net earnings per share would have been: 1972 - $0.08, 1971 - $0.10. The cumulative amount by which retained earnings would have been so reduced to December 31, 1972 is $677,000.

Notwithstanding the fact that the Accounting and Auditing Research Committee of the Canadian Institute of Chartered Accountants recommends the tax allocation basis for all but regulated corporations, company management does not concur that this method is appropriate. The capital cost allowance on flight equipment allowed for income tax purposes is substantially in excess of the depreciation recorded in the accounts. Consequently the deferred tax liability which results from the tax allocation basis will be indefinitely postponed, and accordingly there should be no necessity to provide for an amount where the payment date is indeterminable.

As a result of claiming additional capital cost allowances for 1967, the company has recovered $167,510 of income taxes.

9. REMUNERATION OF DIRECTORS AND OFFICERS

Remuneration of the Directors and Officers of the company amounted to $229,000.

Riddell, Stead & Co.
CHARTERED ACCOUNTANTS 10117 Jasper Avenue, Edmonton 15, Alberta

AUDITORS' REPORT

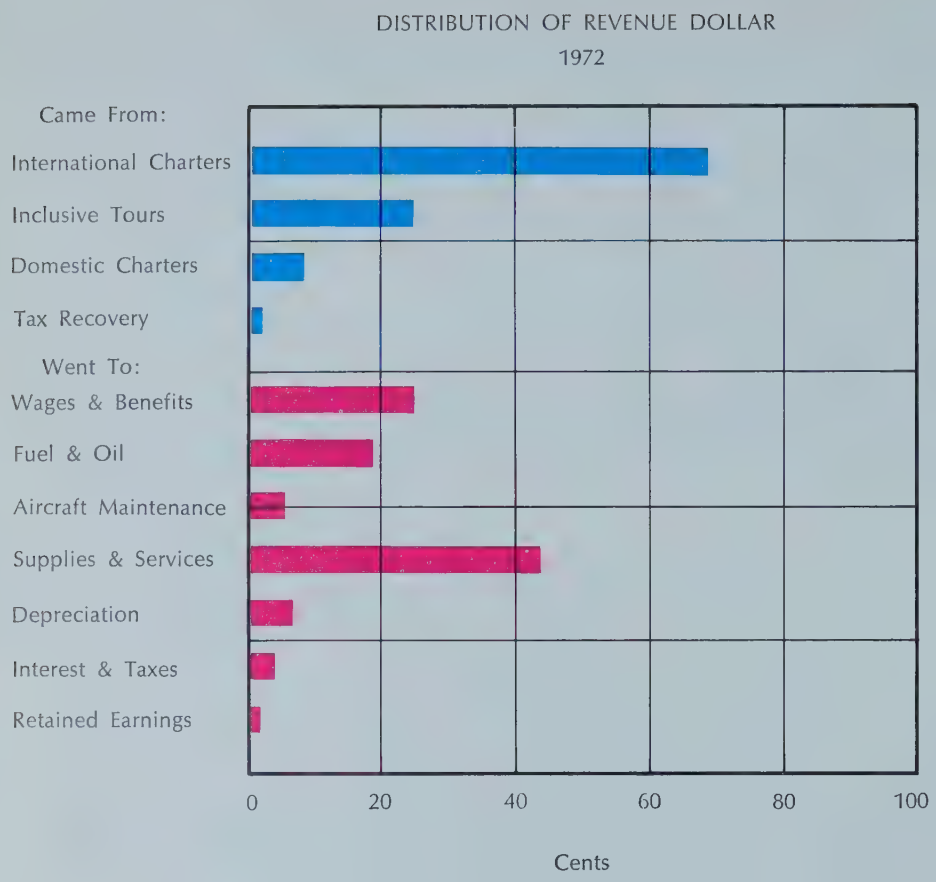
To The Shareholders
Wardair Canada Ltd.

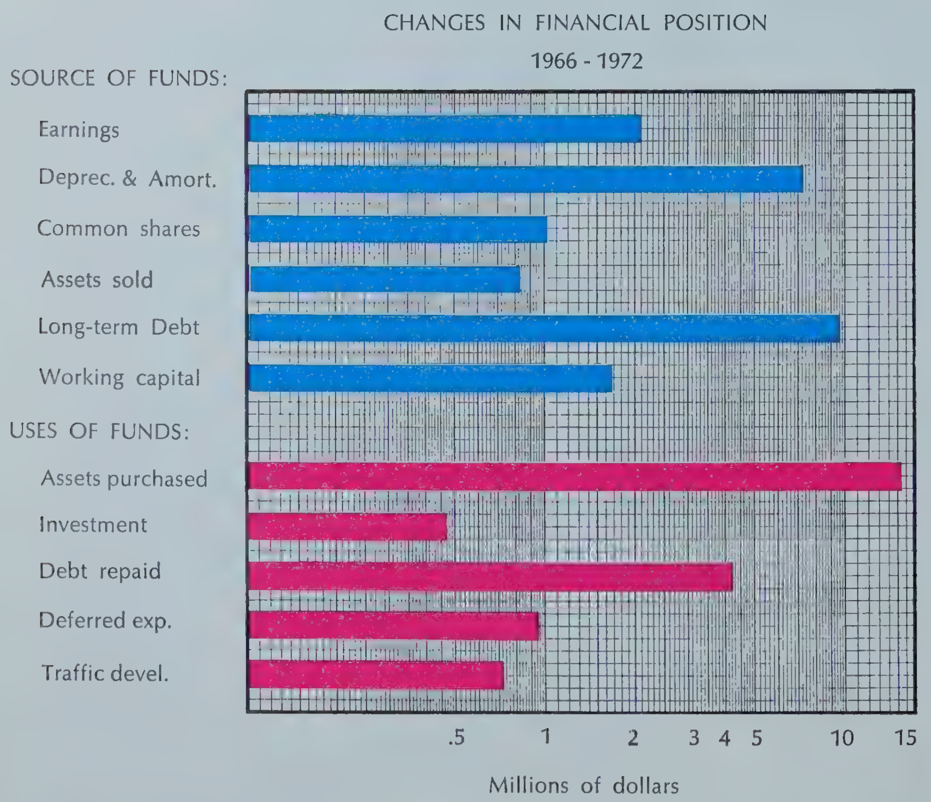
We have examined the consolidated balance sheet of Wardair Canada Ltd. and its subsidiaries as at December 31, 1972 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, except for the effect of income taxes on earnings and retained earnings as explained in Note 8, these financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Riddell, Stead & Co.

February 16, 1973 RIDDELL, STEAD & CO.





SEVEN YEAR REVIEW

FINANCIAL

Operating Revenue

Operating Profit

Net Earnings (loss)

Cash Flow provided by operations

Depreciation, amortization and overhaul provision

Interest on debt

Debenture debt repaid

Additions to property

Debenture Debt

Invested Capital

Yield per international passenger mile

Earnings per share

Operating ratio

Percentage of debt to invested capital

Return on investment

OPERATING

International Service Only

Passengers Carried

Passenger miles (000's)

Freight Ton miles (000's)

Aircraft miles (000's)

Aircraft hours

PERSONNEL

Average number of employees

Employee wages and benefits (000's)

*Not Available

DISTRIBUTION OF CAPITAL

Canada

United States

Other

1972	1971	1970	1969	1968	1967	1966
$19,581,242.	$18,785,355.	$16,446,470.	$12,971,259.	$ 9,094,465.	$ 5,110,833.	$ 4,397,078.
235,931.	868,510.	(399,376.)	1,043,022.	754,375.	974,649.	698,995.
271,996.	563,191.	(996,960.)	396,720.	376,873.	967,372.	408,336.
1,651,579.	1,982,586.	323,147.	1,648,801.	1,340,743.	1,228,062.	764,038.
1,379,583.	1,419,395.	1,320,107.	1,252,081.	963,870.	260,690.	355,702.
465,171.	512,913.	544,589.	579,084.	439,636.	37,124.	—
1,135,000.	955,000.	350,000.	855,000.	560,000.	—	—
839,283.	191,983.	661,458.	1,888,431.	7,713,567.	3,166,128.	797,250.
5,118,475.	5,780,000.	6,735,000.	7,085,000.	7,140,000.	3,100,000.	—
8,605,626.	8,994,155.	9,385,964.	10,742,924	10,381,204.	5,855,871.	911,684.
2.6¢	2.5¢	2.5¢	2.7¢	3.2¢	3.7¢	3.5¢
8.4¢	17.4¢	(30.8¢)	12.3¢	11.7¢	30.3¢	14.9¢
1.2%	4.6%	—2.4%	8.0%	8.3%	19.1%	15.9%
59.5%	64.3%	71.7%	65.9%	68.8%	52.9%	—
8.6%	11.7%	—4.5%	9.2%	10.1%	29.7%	57.7%
205,677	187,665	149,968	106,830	65,340	26,797	23,593
692,851	704,855	590,770	432,878	256,755	117,196	100,209
307	—	462	2,231	—	—	—
5,647	5,592	4,958	2,653	2,512	1,338	1,190
11,781	11,413	10,139	6,469	5,210	2,829	2,689
520	470	429	340	300	231	*
$ 4,817.	$ 4,180.	$ 3,600.	$ 2,733.	$ 1,925.	$ 1,080.	$ 786.

SHAREHOLDERS			SHARES HELD			PERCENTAGE		
1972	1971	1970	1972	1971	1970	1972	1971	1970
1,391	1,387	1,402	3,224,752	3,231,320	3,197,045	99.60%	99.81%	98.76%
15	14	16	11,614	4,480	39,255	.36%	.14%	1.21%
5	6	5	1,200	1,600	1,100	.04%	.05%	.03%
1,411	1,407	1,423	3,237,566	3,237,400	3,237,400	100.00%	100.00%	100.00%

DIRECTORS:

MAXWELL W. WARD	Chairman and President, Wardair Canada Ltd.
M. D. WARD	Secretary-Treasurer, Wardair Canada Ltd.
T. L. SPALDING	Executive Vice-President, Wardair Canada Ltd.
W. T. BROWN	President, Odlum Brown and T. B. Read Ltd.
L. C. NICHOLLS	Vice-President, A. C. Nicholls Agencies Ltd.

OFFICERS and SENIOR EXECUTIVES:

MAXWELL W. WARD	President and Chairman of the Board
T. L. SPALDING	Executive Vice-President
M. D. WARD	Secretary-Treasurer
G. D. CURLEY	Vice-President — Marketing
A. B. FREEMAN	Vice-President — Flight Operations
G. N. R. BELL	Vice-President — Maintenance
J. J. ESTOCK	Director of Finance and Assistant Secretary
I. S. J. HUBERDEAU	Comptroller
F. S. DORNAN	Manager of Northern Operations

HEAD OFFICE:	26th Floor, C.N. Tower, Edmonton, Alberta
TRUSTEES:	Montreal Trust Company
REGISTRAR AND TRANSFER AGENT:	Montreal Trust Company, Edmonton, Toronto and Vancouver
AUDITORS:	Riddell, Stead & Co., Edmonton
SHARES LISTED:	Vancouver Stock Exchange
BANKERS:	Royal Bank of Canada, Edmonton Canadian Imperial Bank of Commerce, Edmonton

SUBSIDIARIES

INTERNATIONAL VACATIONS LTD.

DIRECTORS:

MAXWELL W. WARD	Chairman and President, Wardair Canada Ltd.
M. D. WARD	Secretary-Treasurer, Wardair Canada Ltd.
T. L. SPALDING	Executive Vice-President, Wardair Canada Ltd.

OFFICERS and SENIOR EXECUTIVES:

MAXWELL W. WARD	President
T L. SPALDING	Executive Vice-President
M. D. WARD	Secretary-Treasurer
G. D. CURLEY	Vice-President and General Manager
J. J. ESTOCK	Director of Finance and Assistant Secretary
T. B. DUNNIGAN	Comptroller

CANADA-U.K. TRAVEL CENTRE LTD.

DIRECTORS and OFFICERS:

MAXWELL W. WARD	Director
T L. SPALDING	Director
G. D. CURLEY	Director
JUDITH PATTON	Managing Director
A. GAUNT	Secretary

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